



Congressional Research Service The Library of Congress

Washington, D.C. 20540

INTERIM ESTIMATES OF COSTS FOR SELECTED PROVISIONS ALTERNATIVE TO ONES IN S. 1527

There are several distinct areas in which possible adjustments to the S. 1527 design can be identified clearly. This report briefly describes major alternatives within each of these areas, and provides a preliminary estimate of the incremental effect of each alternative on total government cost.

Each incremental cost estimate is presented as an absolute percentage of Federal payroll, to be added to or subtracted from the estimated S. 1527 government cost of 20.8 percent of payroll. Each estimate reflects what would happen if that particular change were implemented, and the rest of S. 1527 remained in force. Note that the cost effects of various combinations of alternatives cannot be determined simply by adding together the cost effect of each component. There are often interactive effects when multiple changes are introduced together, and the development and pricing of specific combinations will require further consultation.

AREA 1: THE DEFINED-BENEFIT ACCRUAL RATE

S. 1527 establishes a 1.0 percent benefit accrual rate for each year of Federal service. The following increases in the accrual rate yield the indicated increases in cost:

CRS-2

1-A	1.05%	+0.6%
1-B	1.10	+1.2
1-C	1.15	+1.8
1-D	1.20	+2.3
1-E	1.25	+3.0

AREA 2: COST-OF-LIVING ADJUSTMENTS (COLAs)

S. 1527 provides for a COLA equal to the annual increase in the Consumer Price Index (CPI), minus 2 percent. The following changes to the COLA provision produce the indicated increase in cost.

2-A	Full COLA	+3.0%
2-B	Full COLA after age 62, with a "diet COLA" (50% of CPI, or CPI minus 2%) before age 62	+2.5
2-C	A full COLA provided every other year ("catch-up COLA")	+2.7
	60% COLA	+ .40%
	75%	+ 1.4
	1% COLA	-2.4%

are 60% COLA

AREA 3: EARLY RETIREMENT REDUCTIONS

S. 1527 reduces the benefit by 2 percent for each year before age 62. For example, a benefit payable at age 55 ^{with 30% reduction} would be reduced by 14 percent. Eliminating or halving this reduction would increase cost as follows:

3-A	no reduction	+0.5%
3-B	reduction of 1% for each year before age 62	+0.2

55-16 still 5% reduction program until 62

CRS-3

AREA 4: SALARY BASE FOR DETERMINING BENEFITS

S. 1527 establishes a salary base for benefit computation of the highest five consecutive years. Changing that provision to the highest three consecutive years would increase total cost as indicated:

4-A	highest 3 consecutive years	+0.9%
-----	-----------------------------	-------

It just cuts benefits by 7%.

AREA 5: EMPLOYEE CONTRIBUTIONS

*S. 1527
page 11*

The defined benefit portion of S. 1527 is non-contributory for employees. There are different levels and structures of employee contributions that could be introduced. The following is the cost effect of the most frequently mentioned alternative:

5-A	Level contributions: employee contributes 7% of pay minus the amount paid to social security	-1.1%
-----	---	-------

AREA 6: DEFERRED BENEFITS

S. 1527 pays an unindexed deferred benefit to all vested employees. Because there are no employee contributions, there are no forfeitures of deferred benefits through refunds of contributions. The cost of indexing deferred benefit entitlements is:

CRS-4

6-A	index deferred benefits by full CPI over the period between separation and payment	+0.6%
-----	--	-------

AREA 7: DISABILITY BENEFITS

S. 1527 provides a 60 percent of pay long-term-disability (LTD) benefit, offset by social security benefits. The LTD benefits, along with the projected retirement benefit, are indexed by CPI minus 2 percent. There are a variety of possible changes that could be made in the disability area. The most expensive would involved the fullest possible indexing of the LTD and projected retirement benefits.

7-A	LTD and projected retirement benefits indexed by Federal pay increases	+0.6%
-----	--	-------

AREA 8: SURVIVOR BENEFITS

S. 1527 provides the ERISA minimum preretirement survivor benefit, and a postretirement survivor benefit equal to 50 percent of the actuarially reduced benefit. The cost effects of an "upper-bound" survivor package, and its two main features, are:

8-A	Preretirement survivor benefit payable immediately; postretirement benefit with a 10% reduction applied only during life of eligible spouse, and surviving spouse receives 50% of the unreduced benefit	+0.3%
-----	---	-------

Immediate only, Est. +0.1%

CRS-5

AREA 9: CAPITAL ACCUMULATION PLAN

S. 1527 provides a tax-deferred 401(k) plan with a government match of 100 percent on employee contributions of up to 5 percent of pay. There is a wide range of alternative designs available in this area. Three are specified here:

<i>initial version</i>	→	9-A	50% match on contributions up to 6%	-1.6%
		9-B	100% match on contributions up to 3%	-1.1
		9-C	Government contributes 2% for all employees, employee contributions optional	-1.0

9 D	100% up to 2%	-1.6
9 E	50% to 3%	-2.0

Dennis Snook
Team Leader
Civil Service Retirement Team
Education and Public Welfare Division
July 31, 1985

CIVIL SERVICE PENSION SYSTEM
to supplement social security

and comparison with current
Civil Service Retirement System

1. BASIC RETIREMENT PLAN

	Current CSRS	Draft bill (7/11/85)
Eligibility	Federal employees who are not covered by social security.	Federal employees who are covered by social security.
Required employee contributions	7% of total pay.	None, except for social security.
Vesting of retirement benefits	5 years service, provided employee does not withdraw his own contributions.	5 years service.
Salary base	Average of High-3 yrs salary. Ignores bonus & overtime.	Average of High-5 yrs. Ignores bonus, overtime, pay cap.
Retirement benefit formula (accrual rate)	1.5% x first 5 yrs. service, 1.75% x next 5 yrs. service, 2.0% x yrs. of svc. over 10; all times salary base.	1.0% times years of service.
Eligibility for retirement		
1. Unreduced	Age 55 & 30 years service, Age 60 & 20 years service, Age 62 & 5 years service.	Age 62 & 5 years service.
2. Reduced	No provisions.	Age 55 & 10 years service.
3. Involuntary	Age 50 & 20 yrs. service. Any age & 25 yrs. service.	Age 50 & 20 yrs. service. Any age & 25 yrs. service.
4. Deferred vested	At least 5 yrs. service, and does not withdraw employee contributions.	At least 5 yrs. service when employment terminates.
Amount of retirement benefits		
1. Unreduced	Based on accrual rate, without reduction.	Based on accrual rate, without reduction.
2. Reduced	No provisions.	(A) Age 55 & 30 yrs. service, benefit reduced 2% for each year under age 62. (B) Age 55 & 10 yrs. service, benefit reduced 5% for each year under age 62.
3. Involuntary	Reduced 2% for each year under age 55.	Reduced 2% for each year under age 62.
4. Deferred vested	Accrued benefit payable at age 62.	Full accrued benefit payable at age 62. Reduced benefit can be elected when former employee attains age 55 with the service needed for early retirement (10 years or 30 years), with reductions at 5% or 2% per year under 62.
Refunds	Option to withdraw at separation sums contributed with benefits forfeited.	No contributions, thus no refund.
Cost-of-living adjustments (COLAs)	Annually, 100% of rate of inflation as measured by increase in Consumer Price Index (CPI).	60% of CPI increase, with larger COLA in event of high inflation.
Optional forms of benefits	Joint- & survivor annuity. (Survivor annuity is 55% of employee's unreduced annuity. If spouse dies first, annuity to employee is restored to unreduced amount.) Subsidized (less than full actuarial reduction).	1. Joint- & survivor annuity. (Survivor annuity is 50% of employee's reduced annuity. If spouse dies first, annuity to employee is restored to unreduced amount.) 2. Social security leveling option (ages 55-62).
Suspension of benefits during re-employment	Applies only to involuntary retirement cases.	Applies to all retirements.

2. THRIFT-SAVINGS PLAN

	Current CSRS	Draft bill (7/11/85)																																						
Contributions (not included in gross income for tax purposes before account is paid out):																																								
Paid by employee and matched by employer	N/A	Up to 5% of pay, with employer matching at \$1 for each \$1.																																						
Additional voluntary employee contributions, not matched by employer	N/A	Up to 5% of pay.																																						
Vesting	N/A	Employee is immediately vested for own contributions, employer contributions vested at 20% after 1 year of service, increasing to 100% after 5th year, with any investment gains/losses.																																						
Investment of employee accounts	N/A	<p>Employee may elect investment of own account in:</p> <p>(A) Government securities.</p> <p>(B) Fixed-income securities, using insurance company Guaranteed Investment Contracts (GICs) or other private-sector assets.</p> <p>(C) Equities, using index fund invested in proportion to a diversified common stock portfolio such as Standard & Poor's 500 Stock Index.</p> <p>Phase-in of private-sector investment option after thrift plan contributions begin:</p> <table> <tr> <th rowspan="2">Contributions in cal. year</th><th colspan="2">Required to be in gov't securities</th></tr> <tr> <th>Employee</th><th>Employer</th></tr> <tr><td>1986</td><td>N/A</td><td>N/A</td></tr> <tr><td>1987</td><td>100%</td><td>100%</td></tr> <tr><td>1988</td><td>80</td><td>100</td></tr> <tr><td>1989</td><td>60</td><td>100</td></tr> <tr><td>1990</td><td>40</td><td>100</td></tr> <tr><td>1991</td><td>20</td><td>100</td></tr> <tr><td>1992</td><td>0</td><td>100</td></tr> <tr><td>1993</td><td>0</td><td>80</td></tr> <tr><td>1994</td><td>0</td><td>60</td></tr> <tr><td>1995</td><td>0</td><td>40</td></tr> <tr><td>1996</td><td>0</td><td>20</td></tr> </table>	Contributions in cal. year	Required to be in gov't securities		Employee	Employer	1986	N/A	N/A	1987	100%	100%	1988	80	100	1989	60	100	1990	40	100	1991	20	100	1992	0	100	1993	0	80	1994	0	60	1995	0	40	1996	0	20
Contributions in cal. year	Required to be in gov't securities																																							
	Employee	Employer																																						
1986	N/A	N/A																																						
1987	100%	100%																																						
1988	80	100																																						
1989	60	100																																						
1990	40	100																																						
1991	20	100																																						
1992	0	100																																						
1993	0	80																																						
1994	0	60																																						
1995	0	40																																						
1996	0	20																																						
Payout of employee retirement accounts	N/A	<p>Employee may elect payout of vested account balance:</p> <ol style="list-style-type: none"> 1. As annuity. 2. In cash (at retirement age, death or disability). 3. As rollover to IRA (at termination of employment or death). <p>Active employees may not withdraw funds.</p> <p>Hardship loans to employees are to be allowed on or after January 1, 1988.</p>																																						

3. SURVIVOR BENEFITS

	Current CSRS	Draft bill (7/11/85)
Preretirement death benefit, spouse or former spouse.	At death of active employee with 18 months service, surviving spouse gets 55% of: (A) annuity earned at death, or, if larger, the lesser of (B) or (C). (B) 40% of salary base, or (C) annuity earned with service projected to age 60 at same salary base. Group life insurance benefits also are payable.	Surviving spouse may get: (A) Any social security benefits payable. (B) Group life. Employer pays the full cost of basic group life amount equal to the basic amount under current law. (This is one times annual pay rounded to next higher \$1,000, plus \$2,000, at ages 45 and over, and is higher for those under age 45.) (C) At death of individual who is eligible to retire, lifetime pension equal to 50% of pension, reduced for early retirement and for election of 50% joint-and-survivor annuity. (D) At death of individual who is vested but not eligible to retire, lifetime pension (commencing when the individual first would have been eligible to retire) equal to 50% of pension, reduced for early retirement and for election of 50% joint-and-survivor annuity. (E) Thrift plan account.
Preretirement death benefit, children	Unrelated to annuity; annually adjusted dollar amount varied by number of children, and whether or not orphaned.	None from plan; benefits provided by social security.
Optional post-retirement death benefit, spouse or former spouse	55% of earned retirement annuity unless choice jointly rejected; option results in 2.5% reduction in first \$3,600 of annuity and 10% reduction to annuity over \$3,600.	Annuity to married retiree is automatically reduced actuarially as in a 50% joint-and-survivor plan to provide a spouse survivor annuity. (Automatic unless choice is jointly rejected.)
Children	Same as for pre-retirement death benefit.	None from plan; benefits provided from social security.
Special provisions for surviving former spouses, or new spouses due to marriage after retirement.	Benefits are the same as for surviving spouses, subject to elections and deposits in certain cases.	Benefits are the same as for surviving spouses, subject to elections and deposits in certain cases.

4. DISABILITY BENEFITS

	Current CSRS	Draft bill (7/11/85)
Administration and eligibility	Provided from CSRS, if employee has 5 years of service for eligibility. Customarily paid after sick leave is used up.	Provided under separate Long-Term Disability (LTD) plan with third-party administrator. Disability benefits are paid first from unused sick leave, then after no further waiting period from LTD plan, if employee has 18 months of service for LTD eligibility.
Definition of disability	Unable to do any job for which the employee is qualified in the same agency at the same grade level.	Employee must meet one of two definitions of disability-- 1. Social Security definition: Unable to work in substantial gainful activity. 2. Occupational definition: Unable to do any job for which the employee is qualified in the same agency and computing area, at the same grade level. During disability, total income from work may not exceed 60% of pay level for former job, and employee may be given physical exams.
Disability benefit amounts	Annuity earned at onset, or if greater, the lesser of: (a) 40% of salary base, or (b) annuity based on service projected to age 60 at the same salary base.	60 percent of salary, offset after 5-month waiting period by 100% of social security primary benefit, if any, payable to age 62. If employee meets only the occupational definition of disability, benefits are reduced one year after they begin to 40 percent of salary, payable to age 55. Disability benefit amounts have annual cost-of-living adjustments (COLAs) that are the same as under the social security program.
Retirement benefits after disability	Disability pension continues for life if no recovery before normal retirement age.	During LTD benefit period, employee's service continues to be credited toward basic retirement benefit formula, high-5 goes up to reflect pay level for employee's former job, and employee may participate in thrift plan. After long-term disability benefit period ends, employee is eligible for retirement benefits based on age and service at that time.

5. OTHER PROVISIONS

	Current CSRS	Draft bill (7/11/85)
Retirement ages for law enforcement, firefighters, air traffic controllers, Congress, etc.	<p>Law enforcement officers and firefighters may retire at age 50 & 20 years service. Benefit is 2.5% of high-3 times first 20 years of service, plus 2% times service beyond 20 years.</p> <p>Air traffic controllers may retire after 25 years, or at age 50 & 20 years, with unreduced benefits under the regular formula, but not less than 50% of high-3.</p> <p>Other groups have special contributions, benefits.</p>	<p>Law enforcement, firefighters, and air traffic controllers may retire at age 55 with 25 years of service. Supplement equal to social security payable between ages 55-62.</p> <p>National guard technicians may retire at age 55 with 30 years service, with no supplement payable.</p> <p>These classes may retire before age 55, if they have 25 years of service, with reduction of 5% per year below age 55, and with no supplement payable before 55.</p> <p>Other groups get the regular benefits of the plan.</p>
Treatment of non-federal employees as federal employees for purposes of retirement	Certain groups are included.	Newly hired employees of the D.C. government are excluded from this program.
Transfers of current employees to new program	N/A	<p>Current employees may elect to join social security and new program until January 1, 1988.</p> <p>Credit in current program is frozen, except that high-3 pay continues to run. Employee retains survivor coverage from current plan, but not disability coverage. All service counts toward both programs' eligibility for retirement and vesting.</p> <p>Employee is given credit for prior federal service toward eligibility for long-term disability coverage, and the social security windfall-benefit reduction is waived.</p>
Effective date and transition from interim plan		<p>Effective date is Jan. 1, 1987.</p> <p>Employees who contributed toward interim plan after 1983 receive credit toward thrift plan for these contributions and matching employer contributions plus interest.</p>